

20 December 2023

Colin Beattie
Chair
Scottish Commission for Public Audit
The Scottish Parliament
Edinburgh
EH99 1SP

Dear Chair

Thank you for the opportunity to give evidence to the Scottish Commission for Public Audit (SCPA) on 11 December 2023 in support of the 2024/25 [Budget proposal](#).

We are writing to you to provide additional information in relation to matters raised in the Commission's letter of 13 December. We hope that this clarifies the areas where you and your fellow SCPA members have asked us to provide you with more detail.

Staffing costs

1. While the recruitment market for certain roles has been challenging (most significantly in terms of finance and accountancy professionals and for digital skills) we have been relatively successful in attracting and retaining skilled professionals in recent years. As at the end of quarter two we were at 95% establishment, and we expect this to rise in the coming months in light of ongoing recruitment campaigns.

A vacancy factor has always been applied to business groups within Audit Scotland to reflect the turnover of staff in the year. The vacancy factor is applied across the whole financial year, while the actual turnover has peaks and troughs during the year. The vacancy factor information for previous years requested is:

Year	Budget	Actual
2021/22	1%	2.4%
2022/23	2%	5.1%
2023/24	2%	4.9%

The actual figures for 2023/24 are year to date to the end of November 2023. This figure is likely to reduce by the end of the financial year as we are onboarding new trainees and other colleagues in January 2024.

As part of the budget planning process the vacancy factor is one of our key assumptions. With the whole-time equivalent numbers planned to remain the same in 2024/25, the application of a

2% vacancy factor based on current and future staffing levels is a robust assumption that we feel is challenging but deliverable. Our objective to improve audit delivery timescales has been considered, as we need to ensure that we have sufficient resources all year round to deliver on this essential objective.

2. The pay deals for 2021, 2022 and 2023 are summarised below:

- In 2021 the pay settlement was 2% for lower pay bands, 1% for all other pay bands with a maximum uplift of £800. The budget made provision for a 2% pay award.
- In 2022 the final pay settlement was based on an uplift of £2,000 for the lower pay bands and a 5% uplift for all other pay bands. The budget made provision for a 2% pay award.
- In 2023 the pay settlement resulted in an uplift of 6% on the overall pay bill compared with a budget of 3%. The settlement was bottom loaded; modern apprentices received an increase of 10.2%, and those on lower pay bands between 8.2% and 6.5%. Middle pay bands received a 6% uplift and higher pay bands 5.5%.

We are working closely with our recognised trade union, PCS, who have confirmed that pay settlements with the majority of their other bargaining units have now been agreed for 2023/24. Many of those under the Scottish Government Public Sector pay policy have committed to two-year deals. We have therefore already commenced early talks on the 2024/25 award, and our shared ambition is to agree our pay award for 2024/25 by April 2024.

3. The delivery of planned cash efficiency savings in 2024/25 enables us to allocate resources to work on essential new commitments without requesting additional funding.

The new integrated approach to business planning identified key operational and budget pressures that included audit modernisation, digital audit development and climate change audit requirements. To deliver on these key strategic objectives as well as continuing to make progress on audit delivery recovery, we have identified internal savings opportunities as part of the integrated budget process.

In consultation with the recognised trade union we have changed the annual leave year from the calendar year to the financial year. Under IAS19 this will have the effect of reducing the holiday accrual required at 31 March.

We are also reviewing our grade mix; while the plan is for the staffing budget to remain at current levels there will be scope to look at the skills mix and capacity at different grades to secure savings and ensure that we have the right balance to deliver our audit work.

There will also be a reduction in lease car costs as numbers of colleagues who are eligible for the scheme reduces.

In addition, as noted at the meeting, we also anticipate the outcome of the triennial actuarial valuation of the Lothian Pension Fund will result in a slight reduction in the employer's percentage contribution.

Audit modernisation programme

4. We have initiated a significant audit modernisation project which is expected to run for approximately three years. The vision of the project is to transform the audit approach that is

clearly delivered through integrated auditing software and tools that automate and standardise processes. The modernisation programme main workstreams include:

- A review and update of the audit approach and methodology
- Delivering an interoperable suite of supporting software that enables efficient and automated processes, analysis and documentation where appropriate
- Developing and delivering a learning and support programme, underpinned by change management principles to ensure that our staff are confident and are supported and empowered to deliver new ways of working
- Reviewing the capacity and grade mix required to deliver our new approach and a new Target Operating Model.

Audit Scotland's Strategic Improvement Programme Board considered an initial Project Initiation Document at its meeting on 12 December 2023.

Our budget proposal sought to highlight to the SCPA that audit modernisation will be a significant factor in future budget proposals, but we feel at this stage of the project any cost estimations would be speculative and therefore unhelpful. We need to test the market and liaise with other audit agencies to establish potential options and the cost implications on external support and IT hardware and software. We want to ensure that all options are fully evaluated to enable us to make an informed decision that the preferred option delivers the best value for money. We would be happy to update the SCPA as this project progresses.

5. The project is at an early stage and the development of the full business case will commence in the new year. We will be happy to provide you with a copy of the business case in due course. We believe it would be beneficial for audit modernisation to be the primary agenda item for the next SCPA business planning meeting.

Accommodation costs

6. The Audit Scotland Board has considered various options as we developed an Estates Strategy that would meet our long-term requirements.

We obtained professional guidance on the current rental market and the options available to us. This exercise found that the best value for money option was to remain at the existing office in Edinburgh but look to reduce the floor space. This would ensure that we would continue to get the best use of the significant investment we made in 2015. Based on the current rental market in Edinburgh, it would cost more per square foot to move, and we would also incur significant additional costs before we would be able to generate any savings.

The Glasgow office was experiencing significant demand for desk and meeting space both before and after the Covid-19 lockdowns. The number of staff with Glasgow as a base location has risen by 30% over the last three years to 130, with desk space for 52. When the opportunity arose to expand the office size on the same floor of the existing building at Nelson Mandela Place, we considered it provided us with the best value solution to our office accommodation issues in the west.

We also undertook an engagement exercise where all staff had the opportunity to express their views on our future office requirement and the impacts of hybrid working.

While the Estates Strategy has not reduced the overall combined floor space requirement, we will be in a position to deliver savings due to office rental market conditions in Glasgow compared with Edinburgh.

The final decision was made on this option as it enabled us to deliver savings while meeting our hybrid working operational requirements.

7. The breakdown of “other accommodation costs” is detailed below:

	Budget	Forecast	Budget
Description	2023-24	2023-24	2024-25
Property Svce Chgs	179,950	261,189	270,355
Water Rates	10,988	18,328	13,307
Property Maintenance	17,000	19,546	17,000
Dilapidations	82,308	114,000	100,000
Electricity	28,000	35,000	50,000
Cleaning	72,955	69,825	95,584
Catering	15,550	11,459	11,050
Water Coolers	2,400	2,220	2,300
Office Furniture & Equip	1,500	3,125	500
Hire Costs	15,250	7,250	12,750
Health & Safety	8,700	10,020	10,000
Security Waste	3,550	1,150	2,250
Offsite Storage	7,000	12,000	7,000
Total	445,151	565,112	592,096

The main increase is due to the increase in property service charges. This is the landlord charge for maintaining the communal parts of the building, which includes maintenance, heating, cleaning and all aspects of facilities management. This has increased overall due to the additional floor space in Glasgow and due to inflation pressures on utilities and pay for the landlord’s staff. During 2024/25 we will reduce the Edinburgh office space in line with our Estates Strategy and future budget requirements will reduce to prior year levels.

Accounts Commission

8. The Accounts Commission members’ costs in Appendix 1 of the budget proposal include the actual fee payments due to the Chair, Deputy Chair and the 10 members of the Commission.

The fees are based on agreed daily rates and the budget requirement for 2024/25 is £164k. The balance of £14k relates to the travel and subsistence costs required by the members to enable them to undertake their Commission duties.

The most recent full-year figures we have for Commission members is 2022/23, as reported in the [Audit Scotland Annual Report](#):

Accounts Commission	2022/23 (£000)
Salaries	140
National Insurance	7
Travel and subsistence	11
	158

Accounts Commission members were remunerated according to the following bands:

Remuneration banding	2022/23 (£000)
Chair	45-50
Deputy chair	15-20
Members	5-10

Forecast outturn

9. As discussed at the meeting on 11 December 2023, our in-year forecast outturn is subject to robust scrutiny throughout the year by the Executive Tea, the Board and its Audit Committee and the forecast is one of the factors that will influence future budget proposals.

The quarterly financial performance reports are available on the Audit Scotland website as part of the [Board papers](#). The quarter two report is available [here](#) (pp 60 – 67).

As requested, we will include this forecast information in future budget proposals to enable comparisons to be made.

National fraud initiative

At the evidence session on 11 December the Commission sought clarification on some aspects of the National Fraud Initiative (NFI). I propose to provide further information to the Commission on this early in 2024.

We hope the above information is helpful. Please contact us if we can be of further assistance.

Yours sincerely

Stephen Boyle
Auditor General for Scotland
and Accountable Officer

Professor Alan Alexander
Chair